



## Don't Be a Victim of Embezzlement: A Guide to Internal Controls and Discussion Questions for Your Accounting Staff

The first thing every church leader needs to understand (and believe) is that their church is not immune to financial misconduct. The "We don't need to worry about that *here*" mentality is the reason why so many churches become victims of embezzlement. Even if your church isn't being victimized (that you know of), implementing a system of internal controls will ensure that your finances aren't at risk in the future.



Richard Hammar offers these examples of how embezzlement occurs in his book *Pastor, Church & Law, Vol. 2: Church Administration and Property*:

**Example.** A pastor had the sole authority to write checks on the church's checking account. He used church funds to pay for several personal expenses, amounting to thousands of dollars each year, until his actions were discovered.

**Example.** A church left its Sunday offering, along with the official count, in a safe in the church office until Monday. On Monday morning a church employee deposited the offering. The employee ignored the official counts, and deposited the offering less loose coins and currency (which she retained). The deposits were never checked against the offering counts.

To avoid these scenarios, here are a few basic principles for implementing internal controls:

### A Matter of Good Stewardship

Even if you trust every leader at your church, you probably don't feel comfortable giving all of them a copy of your house key—or access to your bank account. Even if you trust them completely, there's no reason to provide such unlimited access to your possessions. In the same way, no one should be given unlimited access to the church's assets.

Internal controls are like checks and balances—or an accountability system. Not only do internal controls make your church's finances safer, but the knowledge that your church has a system in place will also serve as a deterrent—removing the temptation for a leader to embezzle or to "borrow" funds temporarily.

### Focus on Good Practices

A system of internal control not only protects your church's assets, but it protects church leaders from unfounded accusations. If a church leader is wrongfully accused of embezzlement, he will be glad the church's internal controls have made such a charge impossible.

So not to offend anyone, emphasize that the changes have nothing to do with any individual. Rather, the changes are necessary for ensuring the financial security of the church in the present and future.

At first the new practices might seem inconvenient, but in the end, your leaders will be less susceptible to false accusations. And they will understand that you have the church's best interest at heart.

### **Write Policies Down**

Documenting internal control policies is a vital step. This communicates that you are serious about implementing these practices, and it will encourage your leaders to abide by the new restrictions—even if they might seem tedious or unnecessary.

### **Do Annual Audits**

In addition to implementing a system of checks and balances, and limiting access to accounts and cash supplies, churches need to consider finding a local CPA to perform an annual audit of their finances.

Audits spook people. However, churches can use audits to their advantage. An annual audit of the church's finances, though somewhat costly, can serve as a great deterrent for would-be embezzlers—and an incentive for all church leaders to be conscientious about keeping receipts, balancing accounts, and reconciling errors.

### **Emphasize Integrity**

Churches that have never been victimized do not have the same incentive to overhaul their current system as ones that have been victimized. That doesn't mean the changes are any less necessary.

Internal controls are imperative for your church's financial security. If your church needs to revamp its system, don't overlook the spiritual element. Use this time to emphasize the need for honesty and integrity among your leaders—and throughout the church. Remember that embezzlement isn't just about stealing, but it's also a violation of the trust your church members placed in your leaders.

The fallout from financial misconduct is considerable, which is all the more reason to reduce the risk of embezzlement in your church. Establishing internal controls is the best way for churches to ensure their financial security.

Learn more from the downloadable resource "*Internal Controls for Church Finances*," available at [ChurchSafety.com](http://ChurchSafety.com), and *The Essential Guide to Church Finances*, available at [YourChurchResources.com](http://YourChurchResources.com)

*Discuss the  
Tips for  
Prevention of  
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THE UNITED METHODIST CHURCH

## **Tips for Preventing and Catching Misuse of Church Funds for Pastors and Audit Committees from a Church that Has Been There**

FOLLOW THE MANDATES OF The *Book of Discipline* –  
THEY HAVE BEEN PUT THERE FOR A REASON.

When you think of embezzlement, do you think of a high-powered thief stealing millions from a multi-million dollar corporation? On the contrary, much embezzlement is done simply and on a small scale by trusted employees, and churches can be vulnerable because of the high level of trust of all persons. It often happens because of inadequate internal controls in a church organization's accounting system.

Below you will find tips for preventing and catching the misuse of funds. If you maintain the suggested controls, it is a good indicator that everything possible is being done to prevent leaks possibly facilitated by employee or volunteer fraud. An internal control system must, of course, be designed to fit the needs and size of a particular church organization. But the tips can serve as a starting point for determining whether you need an internal control review. An internal control review may help set up and maintain stronger controls.

Note: There are no foolproof guarantees against embezzlement and fraud! Internal controls can only help prevent them. Remember the *Book of Discipline* requirement of fidelity insurance or bonding.

Many internal control procedures are strictly observed when they are first implemented; then, because of job turnover, for the sake of convenience, or because employees and volunteers are trusted, they are no longer enforced. Thus, a periodic checkup for internal controls is a good idea.

1. Be sure you are seeing the original checkbook, checks, and records. Don't take your work for granted.
2. Run a total for an account at random (for instance, altar flowers). Does the treasurer's figure come close to the amount you think it should be? Most churches have a set weekly fee: simply multiply it by 52.
3. The mail should be opened by someone other than the treasurer (or his/her assistant).
4. Bank statements should be reviewed/reconciled by someone other than the treasurer (or his/her assistant).
5. A regular list of checks received should be prepared by someone other than the treasurer (or his/her assistant). The list should be reconciled to the cash-receipts journal.
  - Arrange with your bank for night deposit on Sunday
  - Do not remove cash to a home; many insurance policies will not cover the loss of funds under these circumstances
  - Secure cash in a fireproof safe if it cannot be deposited immediately

6. Cash receipts should be deposited immediately on Sunday and whenever cash is received.
7. A duplicate deposit slip should be made out by the bank and retained.
8. Pre-numbered checks should be used for all payments.
9. Petty cash payments should be backed up by vouchers that have proper approval.
10. Checks should not be signed until made out (not pre-signed). The check signer should be given supporting documents such as invoices at the time s/he is given the check to sign.
11. Vendor invoices should be approved by the proper party before payment and marked paid after payment, with a notation for the date of payment and check number.
12. Canceled checks or equivalent bank documentation should be stored at the church. Yes, storage is a problem, but requesting bank copies of checks is extremely expensive and time-consuming. The audit committee should review checks/documentation to be certain that the stubs match the checks/documentation. Get at least one bank statement. Does it agree with the treasurer's books?
13. Read the treasurer's reports to your administrative council and to the charge conference. Does one statement's ending balance equal the next beginning balance? Are there accounts (heat, etc.) that seem unreasonably high? If nothing else, you might bring expenses under control.
14. Sign the checkbook itself with the date and balance at the time of the audit. Next year, begin at this point.
15. You don't have to wait until the end of the year for an audit or have your treasurer do the charge conference report. If you do, don't simply file the reports in last year's charge conference file! Look them over and compare with the previous year. Between December 31 and January 1 one church lost as much as \$15,000 on paper (the treasurer had already spent it, and this covered the trail). The treasurer simply began the new report with a different balance from the end of the last report. This way, there was \$15,000 that did not have to be accounted for in the new year. The committee on finance is to provide annual audits of records of financial officers of the local church and report to the charge conference (Book of Discipline).
16. Ask your auditor for suggestions to improve your accounting procedures and internal controls and then take their suggestions to heart.
17. Make sure your finance secretary and treasurer are two separate people. Funds can quietly disappear when the same person deposits the money and writes the checks.
18. If your treasurer is not an accountant or bookkeeper, provide training-and consultation.
19. Know the requirements of *The Book of Discipline!* There are provisions in place designed to protect the local church from having these problems (annual audit; bonding; regular and detailed reports from the treasurer to the Committee on Finance and Church Council).

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20. Sudden changes in apportionment payouts may be a sign of trouble. Can you make it one year and not the next without really knowing why? The same can be true of general expenses -- if you don't know how or why you sometimes make or miss your budget, take a look at your finances and find out. It may or may not be the treasurer, but you need to find out what forces are driving your church.
21. Instruct your bank to notify the pastor or the church office of any overdrafts. Many times statements go only to the treasurer, who can then manage to cover misdeeds.
22. Questions deserve answers. When questions are raised to the pastor (or chair of the church council) that something is wrong, follow-up! It may be difficult to imply that something is wrong, but it is worse to have the contributions made to God through the church misused. Everyone may feel better if the treasurer is totally cleared and an explanation is given.
23. If you find that groups or committees are setting up their own treasuries, you have a problem. If they do it because the "church" cannot afford to pay its bills, why is it that all of these separate groups can? These separate groups can "enable" the embezzler because they confuse the financial situation. They also can prolong the embezzlement because they put off the eventual financial crisis.
24. Put the canceled checks in numerical order or have the treasurer tape them back into the checkbook. Make sure all the checks are accounted for, even the voids. It is important to mark the check and the stub "void" and tear the signature area. If other than checks are provided as documentation from your bank, retain and verify with voided checks. These tasks should be done by someone other than the treasurer.
25. The committee on finance should designate two persons (preferably not related and not the treasurer) to count the offering, giving a record of funds to both the financial secretary and treasurer (Book of Discipline ¶ 262.4a).
26. Make sure that there is adequate bonding on church officials who handle money. (See Book of Discipline ¶ 262.4b)
27. All employees should take annual vacations and their jobs reassigned to others in their absence. Funds should not wait to be deposited until the usual depositor returns from an absence.
28. Rotate your treasurers (See *Book of Discipline* ¶ 249.7). Embezzlers will strike you as the most dedicated of people. They cannot afford to take time off or be replaced, because they will be found out.
29. **Don't get paranoid.** Most treasurers are good, honest people. But embezzling is a sickness that doesn't go-away or get better. In fact; the activity and amount generally grow to the point where the embezzlement becomes obvious and the person is caught. Embezzlers were good, honest people at one time, and are able to make excuses for themselves in their

own minds. The United Methodist system does work when you use it. We have budgets, audits, and rotations for reasons. Don't let your local church down by ignoring the safeguards. For additional information on local church audits, see Local Church Audit Guidelines from GCFA (847-869-3345, ext 6706).